

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 NSAE-00
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L-03 PA-01 SP-02 SS-15 AID-05 COME-00 EB-08
FRB-03 TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01
OMB-01 AGRE-00 MMO-01 DOE-15 SOE-02 EPA-01 /106 W
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TO SECSTATE WASHDC IMMEDIATE 3160
INFO AMCONSUL ADANA
USINT BAGHDAD
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MOSCOW
AMEMBASSY TEHRAN
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E.O. 11652 N/A
TAGS: ENRG, EFIN, IZ, TU
SUBJ: TURKISH-IRAQI ECONOMIC AGREEMENT: II

REFS: (A) ANKARA 6153, (B) ANKARA 5455,
(C) ANKARA 4638, (D) ANKARA 5123

SUMMARY. IN RETURN FOR TURKEY'S ORAL ASSURANCES THAT IT WILL
NOT DEPRIVE IRAQ OF NEEDED WATER AND ITS WRITTEN AGREEMENT TO PAY
ITS OIL ARREARS THROUGH EXPORTS OF GOODS AND TO PAY FOR CURRENT
OIL PURCHASES IN CASE WITHIN 60 DAYS, IRAQ HAS AGREED TO RESUME
ITS POSITION AS TURKEY'S LEADING OIL SUPPLIER THROUGH 1979.

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AGREEMENT ON HANDLING OF OIL, WATER, AND PAYMENTS PROBLEMS
HAS OPENED WAY FOR REVITALIZATION OF TURKISH-IRAQI ECONOMIC
AND POLITICAL RELATIONS. CAPPING THIS DEVELOPMENT WILL BE
VISIT OF PRIME IMINISTER ECEVIT TO IRAQ, PLANNED TO TAKE
PLACE SOMETIME WITHIN THE NEXT COUPLE OF MONTHS. IMPROVED
RELATIONS COULD, HOWEVER, FOUNDER IF TURKEY CANNOT MEET
THE PAYMENTS ARRANGEMENTS SETTLED UPON. END SUMMARY.

1. IRAQ APPEARS TO HAVE IMPOSED TOUGH TERMS ON THE TURKS IN THE ORAL UNDERSTANDINGS AND WRITTEN AGREEMENT REACHED BETWEEN THE TWO COUNTRIES DURING TALKS IN ANKARA AUGUST 22-25, ACCORDING TO FERHAT ATAMAN, MFA PETROLEUM OFFICER.

2. VERBAL AGREEMENTS. ALTHOUGH THERE IS NOTHING ABOUT IRAQI WATER RIGHTS IN THE WRITTEN AGREEMENT (REF A), GOT GAVE VERBAL ASSURANCES THAT IT WOULD NOT USE DAM IT PLANS TO BUILD AT KARAKAYA IN A WAY THAT COULD HARM IRAQ OR ANY THRID COUNTRY. TURKEY ASSURED IRAQ THAT KARAKAYA WOULD BE USED PRINCIPALLY FOR HYDROELECTRIC POWER GENERATION RATHER THAN FOR IRRIGATION AND WOULD HAVE BENEFICIAL FLOOD-CONTROL EFFECTS ON LOWER EUPHRATES RIVER, AS KEBAN DAM ALREADY DOES. (COMMENT: EMBASSY NOTES THAT MFA SOURCE MAY BE UNDERSTATING EXTENT OF TURKISH COMMITMENT ON WATER, ESPECIALLY SINCE SAME SOURCE, ON AUGSUST 25, DENIED TO EMBOFF THAT TURKEY AND IRAQ HAD REACHED ANY AGREEMENT ON WATER (REF A). TURKEY IS GETTING OIL FROM IRAQ ONLY THROUGH 1979 ON THE BASIS OF ITS ASSURANCES REGARDING KARAKAYA. AS A CONDITION OF SUCCESSIVE EXTENSIONS OF THAT DATE, IRAQ MAY ASK FOR SIMILAR COMMITMENTS FOR ONE DAM AFTER ANTOTHER IN THE VAST POWER AND IRRIGATION SYSTEM THAT TURKEY PLANS FOR THE TIGRIS AND EUPHRATES RIVERS. IT COULD BE ECONOMICALLY AND POLITICALLY DIFFICULT FOR TURKEY TO GIVE ADDITIONAL COMMITMENTS.)

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3. TURKEY RECEIVED ORAL ASSURANCES THAT IRAQ WOULD PAY ROYALTIES AS THOUGH THE PIPELINE WERE OPERATING AT FULL CAPACITY, REGARDLESS OF WHETHER IRAQ IS ABLE TO MAINTAIN THIS LEVEL OR NOT.

4. WRITTEN AGREEMENT. IN WRITTEN AGREEMENT, GOT GUARANTEED PAYMENT FOR ITS SHARE OF THIS PETROLEUM ON COMMERCIAL TERMS THAT INCLUDE ONLY TWO MONTHS' CREDIT. AGREEMENT DID NOT SPECIFY THE AMOUNT OF IRAQI OIL WHICH TURKEY WOULD IMPORT. MFA SOURCE INDICATED THAT ESTIMATED OF 1.2 MILLION TONS IN 1978 AND 5 MILLION TONS IN 1979, ATTRIBUTED BY PRESS TO TURKISH ENERGY MINISTER DENIZ BAYKAL, MIGHT HAVE BEEN BASED ON A VERBAL UNDERSTANDING (REF A).

5. SOURCE DENIED PRESS ACCOUNTS THAT TURKEY HAD AGREED TO PAY OFF EXISTING OIL DEBTS TO IRAQ (ESTIMATED AT \$300 MILLION) BY 1981. HE SAID THAT HE WAS NOT AT LIBERTY TO DISCUSS THE SCHEDULE OF TURKISH DEBT PAYMENTS WHICH HAD BEEN AGREED UPON.

6. ATAMAN SAID THAT THE WRITTEN AGREEMENT ESTABLISHES A SPECIAL PAYMENTS MECHANISM BETWEEN THE TWO COUNTRIES' CENTRAL BANKS UNDER WHICH TURKEY WILL PAY OFF ITS OIL ARREARS TO IRAQ THROUGH THE PROCEEDS FROM ITS EXPORTS. HE EMPHASIZED THAT THIS WAS

NOT A BARTER ARRANGEMENT BUT RATHER A PAYMENTS ARRANGEMENT
SUCH AS TURKEY HAS WITH ITALY (SIC) AND LIBYA (REF C).

7. TURKEY'S ENERGY MINISTER TOLD A PRESS CONFERENCE AFTER
THE AGREEMENT SIGNING CEREMONY ON AUGUST 25 THAT TURKEY
WOULD REPAY ITS OIL ARREARS TO IRAQ BY EXPORTS OF WHEAT,
PEAS, HOUSEHOLD APPLIANCES, AND BUSES. WHEAT EXPORTS ARE
PLANNED TO REACH 400,000 TONS IN 1979 AND 300,000 TONS DURING
EACH OF THE FOLLOWING TWO YEARS UNLESS FAVORABLE CROPS
MAKE IT POSSIBLE FOR TURKEY TO EXCEED THOSE LEVELS.

8. ECEVIT TO VISIT IRAQ. TURKISH PRESS OF AUGUST 27
REPORTED THAT PRIME MINISTER BULENT ECEVIT MET WITH THE HEAD
OF THE IRAQI DELEGATION AND AGREED IN PRINCIPLE TO VISIT
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IRAQ AT SOME TIME IN THE NEXT COUPLE OF MONTHS. ANOTHER
TURKISH VISITOR TO IRAQ WILL BE MINISTER OF COMMERCE TEOMAN
KOPRULULER, WHO WILL VISIT BAGHDAD SEPTEMBER 29 - OCTOBER 1,
FOR THE OPENING OF A TURKISH TRADE EXHIBIT.

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9. COMMENT: THESE AGREEMENTS INDICATE THAT IRAQ IS LIKELY TO RESUME ITS POSITION AS TURKEY'S LEADING OIL SUPPLIER IN 1979 IF TURKEY CAN COME UP WITH ENOUGH FOREIGN EXCHANGE TO PAY FOR OIL IMPORTS WITHIN TWO MONTHS OF THEIR RECEIPT. IRAQ'S RESUMPTION OF PAYMENT TO TURKEY FOR TRANSPORT ROYALTIES AS THOUGH THE PIPELINE WERE OPERATING AT CAPACITY (APPROXIMATELY \$45 MILLION PER ANNUM) WILL OFFSET PART OF THESE PETROLEUM COSTS. HOWEVER, IRAQ'S ANNUAL PETROLEUM EXPORTS TO TURKEY ARE UNLIKELY TO RETURN TO THE LEVEL ATTAINED FROM 1974 TO 1977 (6 MILLION TONS), LET ALONE THE 10 MILLION TONS PLANNED FOR 1977-79, UNDER THE LIMITED OFFICIAL USE

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TURKISH-IRAQI PIPELINE AGREEMENT OF AUGUST 1973.

10. ON AUGUST 29, TURKEY'S ENERGY MINISTER WAS REPORTED BY TURKISH RADIO AND TELEVISION TO HAVE SAID IN A SPEECH IN IZMIR THAT TURKEY HAS TAKEN CARE OF ITS CRUDE OIL NEEDS THROUGH THE END OF 1979. THIS COMPLACENT APPROACH WAS ALSO TAKEN BY ONE OF TURKEY'S LEADING COLUMNISTS, ABDI IPEKCI, IN PRO-GOVERNMENT MILLIYET OF AUGUST 27. HE EXPLAINED THAT TURKEY WOULD BE ABLE TO OBTAIN THE SAME AMOUNT OF CRUDE OIL IMPORTS IN 1979 AS ARE PLANNED FOR 1978 (12 MILLION TONS) ON THE BASIS OF ITS TRADE AGREEMENTS WITH IRAQ (5 MILLION), LIBYA (3 MILLION), THE USSR (3 MILLION), AND IRAN (1 MILLION). IN EMBASSY'S OPINION, THESE STATEMENTS ARE SOMEWHAT OVER-OPTIMISTIC. THEY OVERLOOK THE FACT THAT IRAN IS THE ONLY OIL SUPPLIER THAT HAS AGREED TO OFFER CREDIT FOR THE ENTIRE AMOUNT OF ITS OIL SHIPMENTS FOR ANY PERIOD LONGER THAN TWO MONTHS. MOREOVER, THE SOVIET UNION HAS ONLY AGREED TO CONSIDER THE TURKISH REQUEST FOR 3 MILLION TONS OF CRUDE IN 1979 AND HAS NOT YET MADE ANY BINDING COMMITMENT TO DELIVER THIS AMOUNT.

11. DESPITE ATAMAN'S DENIAL THAT TURKEY AND IRAQ HAVE ESTABLISHED A BARTER ARRANGEMENT TO SETTLE TURKEY'S EXISTING PETROLUUM DEBTS, HE CONCEDES THAT THE CENTRAL BANKS OF THE TWO COUNTRIES WILL ESTABLISH A PAYMENTS ARRANGEMENT SIMILAR TO THAT WHICH TURKEY ESTABLISHED

RECENTLY WITH LIBYA (REF C). CONSEQUENTLY, THE IRAQI-TURKISH PAYMENT ARRANGEMENT MAY BE CONTRARY TO THE OBLIGATION WHICH TURKEY ASSUMED IN ITS IMF LETTER OF INTENT OF MARCH 23, 1978, NOT TO ENTER INTO ANY NEW BILATERAL PAYMENTS ARRANGEMENTS WITH OTHER IMF LIMITED OFFICIAL USE

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MEMBERS. INDEED, TURKEY'S ENERGY MINISTER IS REPORTED TO HAVE TOLD A PRESS CONFERENCE ON AUGUST 25 THAT "TURKEY WILL BE ABLE TO PAY OFF ALL OF ITS ARREARS TO IRAQ THOUGH EXPORTS OF GOODS ON ACCEPTABLE TERMS."

12. NO PRESS RELEASE OR COMMUNIQUE WAS ISSUED AT THE CONCLUSION OF THE TALKS. IT MAY BE SEVERAL MONTHS BEFORE THE WRITTEN AGREEMENT IS PUBLISHED IN THE OFFICIAL GAZETTE. IT WILL HAVE TO BE APPROVED BY THE COUNCIL OF MINISTERS BEFORE PUBLICATION. DILLON

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